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[redacted]

Industrial Countries: Selected Economic Data

EURM 83-10147

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Industrial Countries: Economic Power Shifts

- The US share of the economic output of industrial countries fell sharply from 1950 through the early 1970s, and thereafter stabilized.

- The largest US loss occurred in the 1950s, reflecting mainly the recovery of war-torn Europe and Japan. The momentum of this catchup lasted well into the 1960s although the changes in relative GNP shares slowed considerably.

- During the 1970s the US share changed little.

- The gains of the EC Nine came entirely in the 1950s; after that the group's proportion declined slightly as the share of the United Kingdom and West Germany fell somewhat.

- Japan's gains came during the 1960s when its economic growth pace topped an extraordinary 10 percent a year. Japan's share increased slightly in the 1970s as its economy continued to grow somewhat faster than that of other industrial countries.

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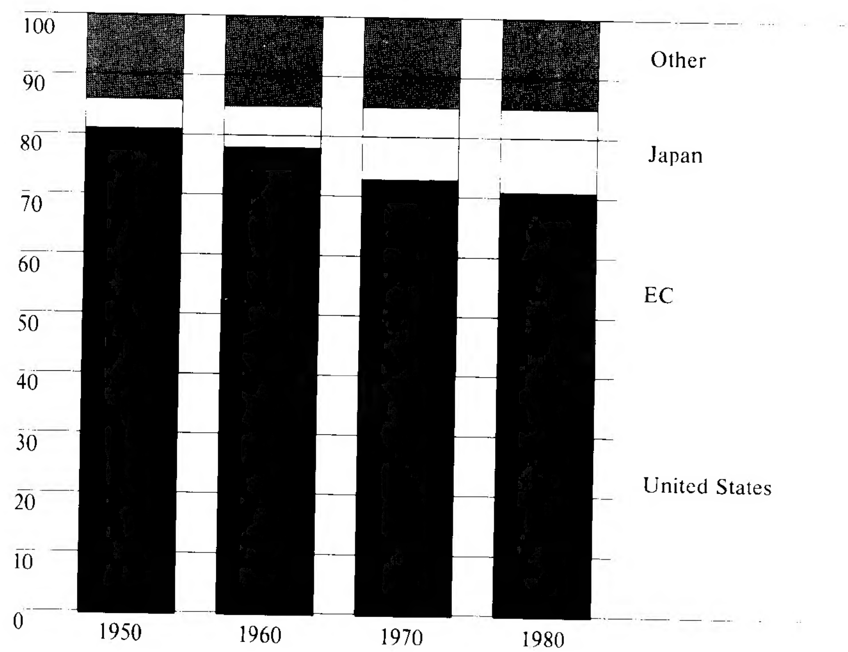
Industrial Countries: Economic Power Shifts

Share of total industrial country GNP, in 1975 prices



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Industrial Countries: Current Account Balances, 1982

- The US current account position relies heavily on service transactions.
- In recent years, the United States has had the largest trade deficit among industrial countries but has achieved by far the largest surplus on the service account.
- France, Italy, and the United Kingdom tend to follow the US pattern, although oil exports helped Britain to achieve a trade surplus last year.
- Japan, West Germany, and Canada usually run trade surpluses and service deficits.

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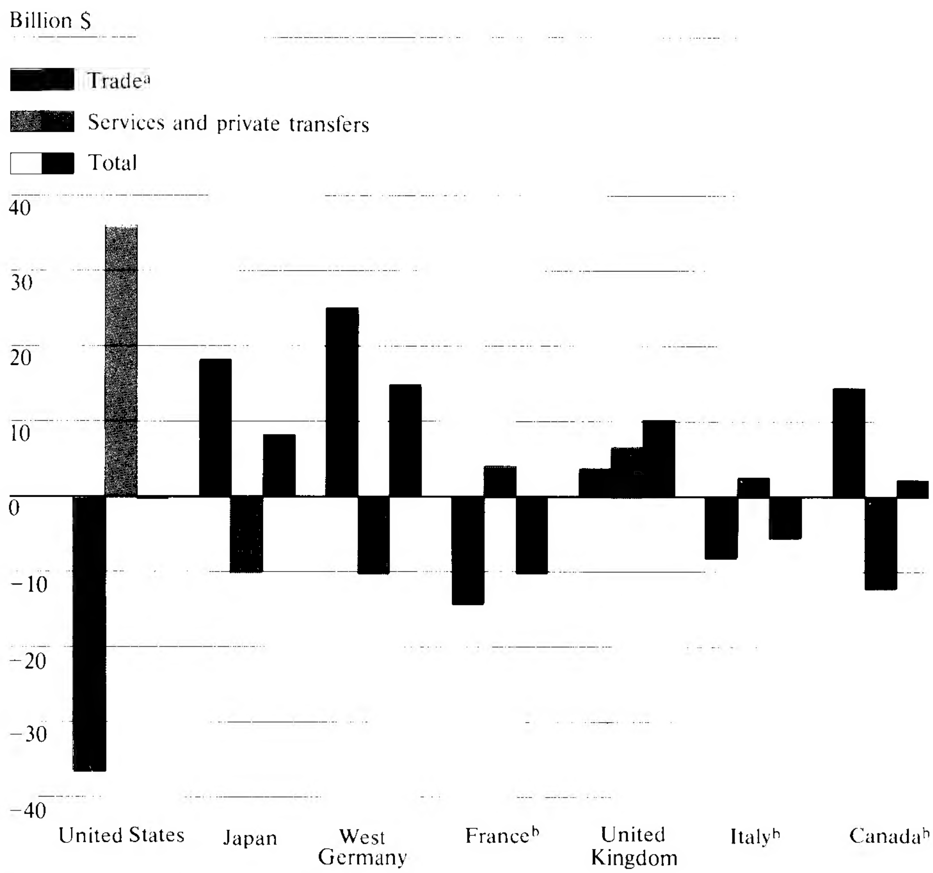
Current Account Balance of Industrial Countries, 1982
Trade Versus Services



[a] Based on balance-of-payments definition.
[b] Estimated.

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Industrial Countries: Current Account Trends

- The most commonly used indicator of a country's balance-of-payments position is its balance on current transactions. This includes exports and imports of merchandise, trade in services, return on capital invested abroad, and salaries earned abroad.

- The United States and other industrial countries, as a group, usually run current account surpluses. These surpluses create the capital flows the LDCs need to finance development efforts. By the early 1970s the industrial country surpluses reached some $15 billion a year. This normal surplus situation was distorted after 1973 because the huge oil price increases temporarily led to large current account deficits for the industrial world and made OPEC a major source of capital for LDCs.

- From the early 1950s through the middle 1960s, the United States ran fairly large surpluses while the other industrial countries had deficits; thus, the United States was providing capital to help the LDCs develop and to assist other countries of the industrial world in restoring their economies. As these other industrial countries improved their economic strength, they too began to run current account surpluses.

- By the late 1960s, the US current account position began to deteriorate sharply, reflecting the continuing competitive losses to other industrial countries. In this regard, it became clear that the dollar was overvalued.

- Since the realignment of the key world currencies against the dollar and introduction of floating exchange rates in the early 1970s, the US current account position and those of other countries have experienced wide swings, reflecting ongoing exchange rate changes and the sudden rises in oil prices.

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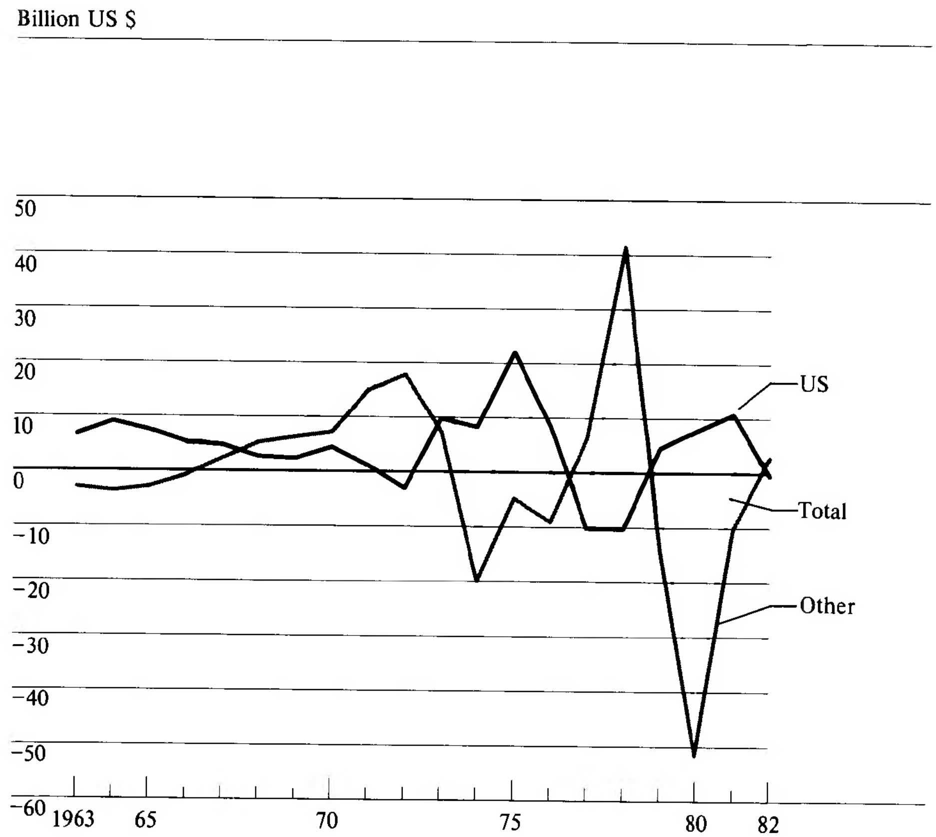
Industrial Countries: Current Account Trends[a]



[a] Includes goods, services, and private transfers. Data for 1982 are estimated.

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US Current Account Trends

- Service transactions have played an increasingly important role in US current account transactions.

- While the US trade balance (on a balance-of-payments basis) has deteriorated from near zero in the first half of the 1970s to an average deficit of some $30 billion per year since then, the service surplus has climbed fairly steadily, reaching $36 billion in 1982.

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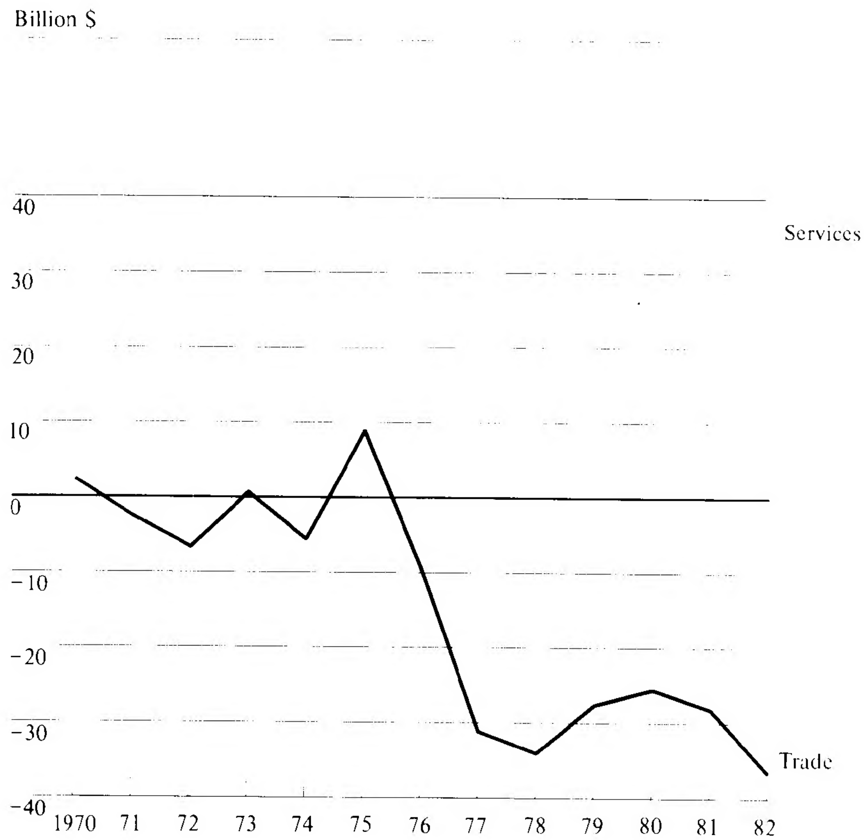
US Current Account Trends: Trade Versus Services



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Japan: Imports of Manufactures

- Japanese imports of manufactures are small by any measure.

- They are small relative to those of other industrial countries.

- They are small in relation to Japanese exports of manufactures.

- They are small in the two-way trade among industrial countries. Thus, Japan has not yet developed the large and fairly even flow of manufactures with other industrial countries that has characterized the growing interdependence among countries of North America and Western Europe, and between these regions.

- They are small when measured against GNP. Despite 10 years of considerable efforts by the United States and the EC to make Japan open up its market, the ratio of Japanese imports of manufactures to GNP remains near the low level of 1970. In contrast, the United States and the EC have each greatly increased their relative purchases in the past decade.

- Japan shields its domestic market from foreign competition mainly through an informal interaction of various interest groups, while tariffs and other statutory trade restrictions play a minimal role.

- Foreign firms in Japan must deal with (1) an array of restrictions involving inspections and approvals handled by an ambiguous bureaucratic process, (2) informal cartel arrangements among major producers, and (3) unwritten guidelines under which buyers purchase goods mainly from Japanese firms. As a result foreigners cannot easily pinpoint where and how the restrictions are being applied.

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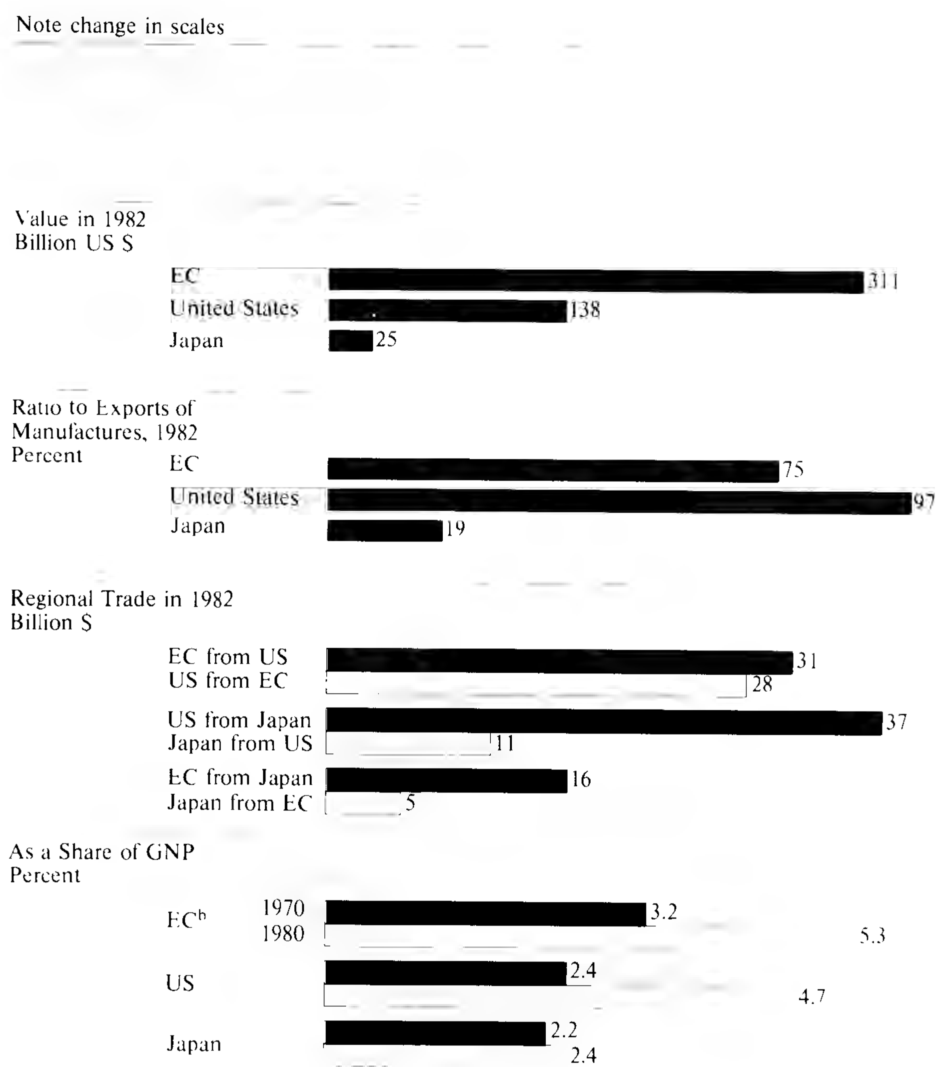
Imports of Manufactures: Japan, the US and the EC[a] Compared



[a] Excluding Denmark, Ireland, and Greece. 1981 data for Italy.
[b] Excluding intra-EC trade.

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Impact of Japanese Exports of Manufactures

- The United States has taken the brunt of the Japanese export surge. US consumers, of course, have benefited from the Japanese price/quality competition.

- Despite the recent rapid rise in Japanese exports to the EC, that group takes a much smaller amount of such Japanese manufactures relative to GNP than does the United States. In fact, the EC absorbed in 1982 about the same share of GNP that the United States did in 1972.

- In Italy and France the purchases of Japanese manufactures remain an especially small portion of these countries' GNP.

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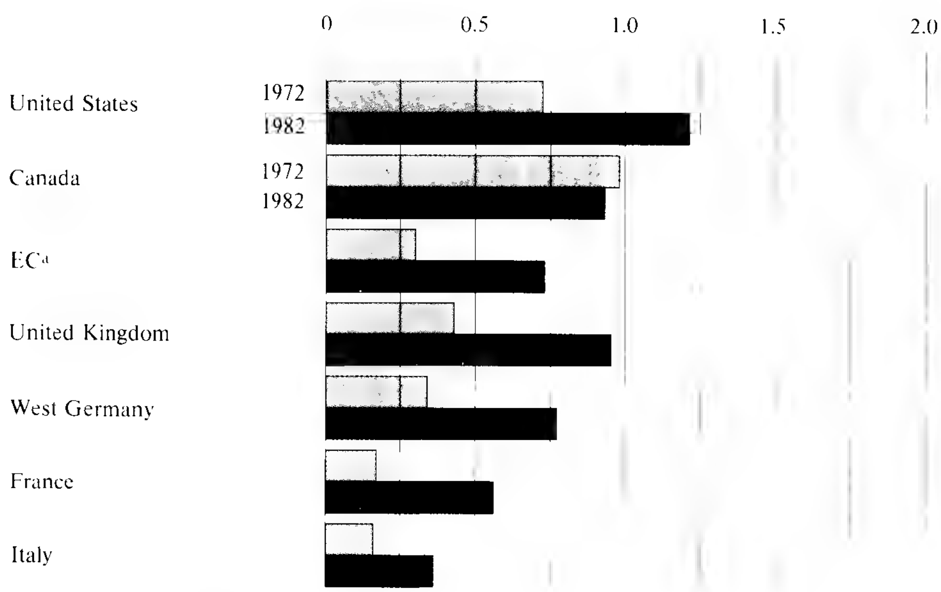
Industrial Countries: Imports of Manufacturers From Japan

Percent of GNP



[a] Excluding Denmark and Ireland

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Japanese Surges in Export Growth

- Japanese companies are most aggressive in exporting manufactures when domestic demand falters. They do this by rigorous marketing and by convincing workers to temporarily accept cuts in real wages.

- Firms in other countries also pursue such recessionary strategies, but the Japanese do so in a much more forceful manner because of their particular mode of business operations. Japanese companies are much less able to reduce costs during recessionary periods. Their lifetime employment practices mean that they cannot easily lay off workers. Their comparatively high reliance on loan capital rather than equity capital means they are burdened with continuing high debt servicing payments and gain little by cutting back dividends.

- The unusually high coincidence of recessionary periods among industrial countries (1974-75 and 1980-82) made the Japanese export drives even more politically sensitive. Many countries accused the Japanese of pursuing export-led growth at the expense of other industrial countries.

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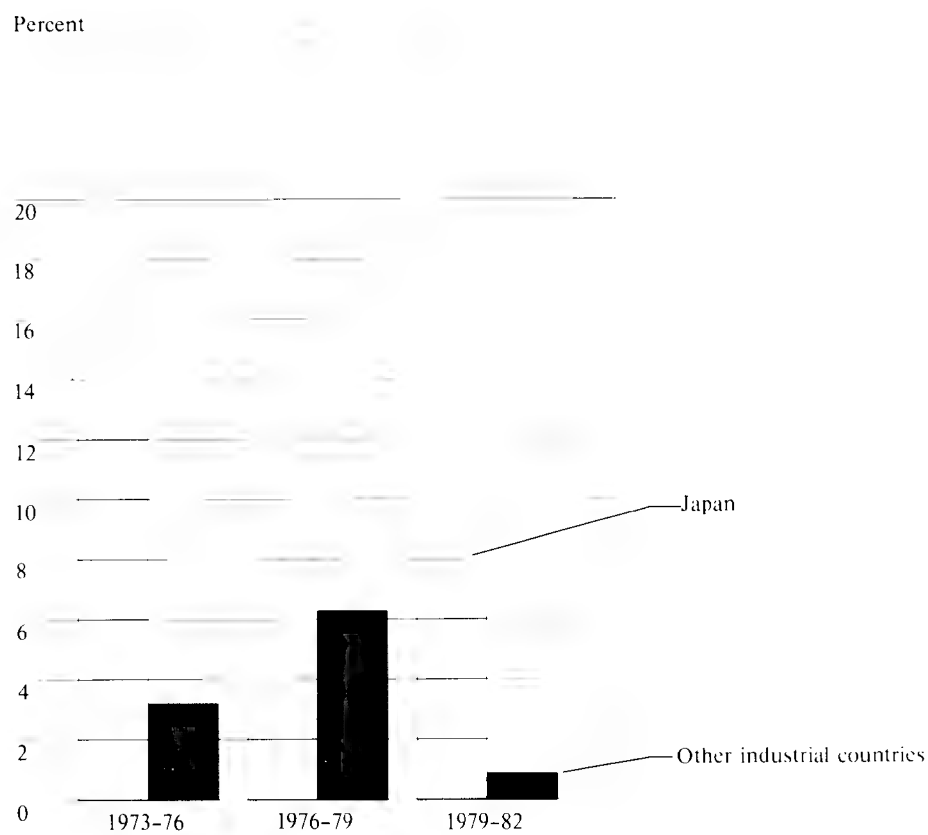
Japanese Surges in Export Growth (Average Annual Rise in Volume of Exports)



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United States: The Growing Importance of the Service Sector

- The US economy increasingly is dominated by service activities. Service-producing industries now account for more than 70 percent of the US labor force and in the last decade provided for almost 90 percent of its growth.

- Relative to goods production, however, the service sector has been given little attention because of the paucity of information on services and the vague nature of these industries. In the international field, for example, the United States divides "merchandise" trade into 10,000 categories; in services there are fewer than 10 breakdowns.

- Indeed, the US economy is experiencing a service transformation, in which a new set of linkages are being established through the growth of "integrative services" that interconnect firms, units of firms, and industries at different stages of production or in different locations. The distinctions between goods and service industries are increasingly breaking down, as the two aspects merge with each other. The most dramatic expansion is now taking place in this integrative part of the service sector that combines high technology with management/marketing know-how. This "information economy" marries computers and communications, which include "software" of all types, and a great variety of financial and diagnostic services.

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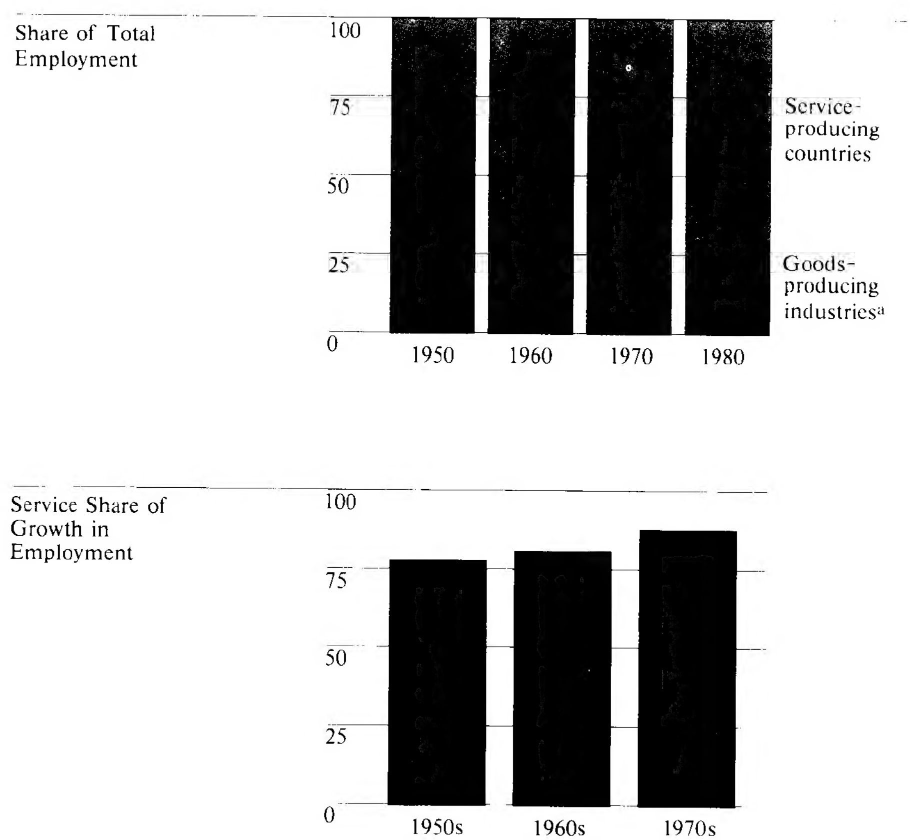
United States: The Growing Importance of the Service Sector

Percent



[a] Includes construction.

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Selected US Service Industries: Share of Foreign Revenues

- The other private services category contains some of the most dynamic and important service sector industries. But, because of the accounting method used in balance-of-payments statistics, the category includes only a small portion of the actual sales of these industries. For example, another effort to try to account for the total foreign revenues of the industries in this category came up with more than $30 billion in 1980. This compares with less than $4 billion under the balance-of-payments definition.

- Much of what might be included in the other private service balance-of-payments category shows up in other service elements such as fees and royalties, direct investment income, and private transfers. Large revenues received by these industries also are likely to be included under merchandise trade. For example, the price of computer hardware often includes considerable outlays on software.

- Among many private service industries, foreign revenues now provide a major share of the total revenues. In accounting, advertising, banking, construction, and motion pictures, foreign revenues account for 30 percent or more.

- While the proportion of revenues derived from foreign sales remained relatively low in the case of consulting, franchises, and information, they are climbing rapidly and are making an important contribution to earnings.

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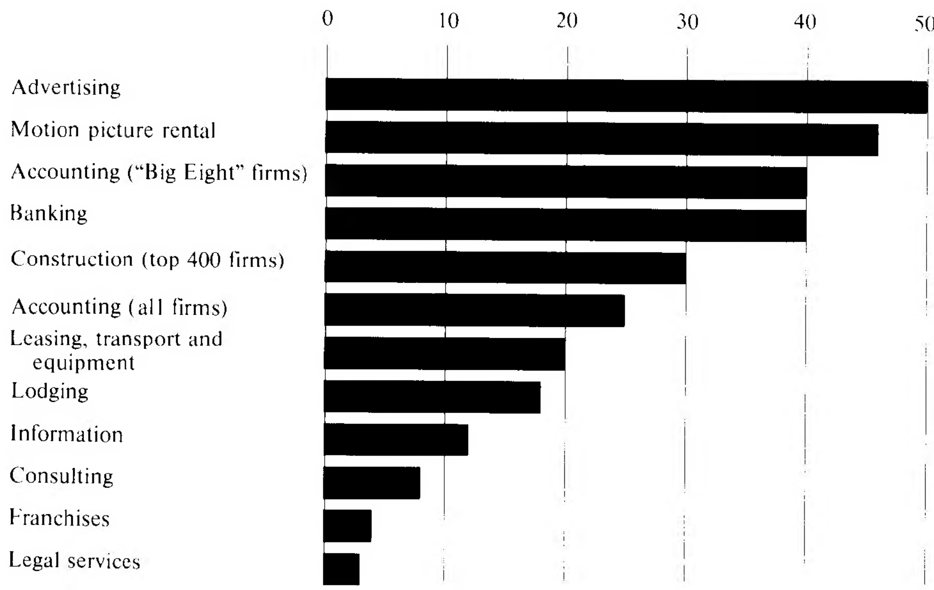
Selected US Service Industries, Share of Foreign Revenues, 1980

Percent



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